

Accounting Basics – A Review

Source documents:

- Cheques/cheque stubs – records payments made
- Cash should never be used to make a payment (GAAP – Objective Evidence)

- Till tape/adding machine tape – records money received through normal business transactions (sale of merchandise/payment for services)
- Receipt – records money received through other-than-normal business transactions (additional investment from the owner; sale of supplies/equipment previously used in the business)

source document – recording opening, adjusting or closing entries)

- Memorandum – a note written (and signed) on business stationary that explains the flow of money (when there is no other

Business forms

- Chart of accounts
 - Shows the accounts used in a business and the account classification
 - Assets – 100's or 1000's
 - Liabilities – 200's or 2000's
 - Capital – 300's or 3000's
 - Revenue – 400's or 4000's
 - Cost of merchandise – 500's or 5000's
 - Expenses – 600's or 6000's
 - Placed at the beginning of the general ledger

LAWNMASTER Chart of Accounts	
(100) ASSETS	(400) REVENUE
110 Cash	410 Sales
120 Supplies	
130 Prepaid Insurance	(500) EXPENSES
(200) LIABILITIES	510 Advertising Expense
210 Dixon Company	520 Equipment Repair Expense
220 Topp Supply Company	530 Insurance Expense
(300) CAPITAL <i>credit</i>	540 Miscellaneous Expense
310 Harry Walters, Capital	550 Rent Expense
320 Harry Walters, Drawing	560 Supplies Expense
330 Income Summary	570 Utilities Expense

- General ledger
 - Book where each account on the chart of accounts is listed (in numerical order by their account number) and a running balance is kept for each account
- Balance sheet
 - Done at the beginning and the end of the fiscal period
 - Dated with a specific date
 - Records the equality of the accounting equation

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Balance Sheet
July 1, 19--

Assets		Liabilities	
Cash	1,500.00	Dixon Company	350.00
Supplies	1,700.00	Topp Supply Company	200.00
Prepaid Insurance	600.00	Total Liabilities	550.00
		Capital	
		Harry Walters, Capital	3,250.00
Total Assets	3,800.00	Total Liab. and Capital	3,800.00

ACCOUNT *Cash* ACCOUNT NO. 110

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
July 1	G1		1,500.00		1,500.00
31	G3		3,299.00	5,099.00	
			1,962.00	3,170.00	

ACCOUNT *Supplies* ACCOUNT NO. 120

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
July 1	G1		1,700.00		1,700.00
1	G2		15.00		1,715.00
13	G2		85.00		1,710.00
25	G3		65.00		1,835.00
31	G2		985.00		850.00

ACCOUNT *Prepaid Insurance* ACCOUNT NO. 130

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
July 1	G1		600.00		600.00
1	G2		100.00		700.00
31	G2			110.00	590.00

ACCOUNT *Dixon Company* ACCOUNT NO. 210

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
July 1	G1				
1	G2		100.00		250.00

ACCOUNT *Topp Supply Company* ACCOUNT NO. 220

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE
July 1	G1				
1	G1			200.00	200.00

General journal

- Place where transactions are recorded
- Each part of the transaction is recorded on a separate line
- Combination journal
 - Place where transactions are recorded
 - Special amount columns allow the user to avoid writing more than one account title (except in special situations)

GENERAL JOURNAL PAGE 1

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL DEBIT	GENERAL CREDIT
July 1	Cash	M1		1,500.00	
	Supplies				1,700.00
	Prepaid Insurance				600.00
	Dixon Company				350.00
	Topp Supply Company				200.00
	Harry Walters, Capital				3,250.00

- Work sheet
 - Used for planning and analyzing the adjustments
 - This is the first recording of adjustments
 - Dated for a period of time – the fiscal period
 - The initial calculation of net loss or net income is done her
 - From the work sheet, the income statement and balance sheet are done for the fiscal period

COMBINATION JOURNAL PAGE 3

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	SALES CREDIT	CASH DEBIT	CASH CREDIT
July 12	Brought Forward					4,150.00	1,784.00	2,366.00
14		T14		9.50			9.50	
15		T15		1.00			1.00	
16	Miscellaneous Expense	C14		10.00				10.00
16		T16			55.00		55.00	
18		T17			2.50		2.50	
18		T18			145.00		145.00	
20		T20			50.00		50.00	
21	Utilities Expense	C15		35.00				35.00
21		T21			70.00		70.00	
22		T22			65.00		65.00	
23	Miscellaneous Expense	C16		20.00				20.00
23		T23			80.00		80.00	
24	Harry Walters, Drawing	C17		100.00				100.00
24		T24			100.00		100.00	
25	Supplies	C18		65.00				65.00
25		T25			200.00		200.00	
25		T27			45.00		45.00	
28	Miscellaneous Expense	C19		17.00				17.00
28		T28			50.00		50.00	
28		T29			60.00		60.00	
30		T30			65.00		65.00	
31	Harry Walters, Drawing	C20		80.00				80.00
31		T31			210.00		210.00	
31	Totals			1,962.00	4,000.00	3,149.00	3,599.00	1,962.00

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Work Sheet
For Month Ended July 31, 19--

ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
1 Cash	3,115.70						3,115.70	
2 Supplies	1,835.00			98.50			1,835.00	
3 Prepaid Insurance	700.00			110.00			590.00	
4 Dixon Company		250.00						250.00
5 Topp Supply Company		200.00						200.00
6 Harry Walters, Capital		3,250.00						3,250.00
7 Harry Walters, Drawing	100.00						100.00	
8 Income Summary								
9 Sales		3,199.00				3,199.00		
10 Advertising Expense	25.00				25.00			
11 Equipment Repair Expense	40.00				40.00			
12 Insurance Expense				110.00		110.00		
13 Miscellaneous Expense	72.00				72.00			
14 Rent Expense	40.00				40.00			
15 Supplies Expense				98.50		98.50		
16 Utilities Expense	90.00				90.00			
17	7,299.00	7,299.00	1,095.00	1,095.00	1,722.00	3,199.00	5,577.00	4,100.00
18 Net Income					1,477.00			1,477.00
19					3,199.00	3,199.00	5,577.00	5,577.00
20								
21								
22								
23								
24								
25								

- Income statement
 - Dated for a period of time – the fiscal period
 - Records the revenue and expenses for the period of time
 - Used to calculate the net income or net loss
 - Net income is when revenue is larger than expenses
 - Net loss is when expenses are larger than revenue

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Income Statement
For Month Ended July 31, 19--

Revenue:		
Sales		319900
Expenses:		
Advertising Expense	2500	
Equipment Repair Expense	4000	
Insurance Expense	11000	
Miscellaneous Expense	7200	
Rent Expense	40000	
Supplies Expense	98500	
Utilities Expense	9000	
Total Expenses		172200
Net Income		147700

- Balance sheet
 - Checks the equality of the accounting equation for the business
 - Uses a new owner's capital
 - Owner's capital is calculated (when there is a net income) capital account balance – drawing account balance + net income
 - Owner's capital is calculated (when there is a net loss) capital account balance – drawing account balance – net loss

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Balance Sheet
July 31, 19--

Assets		Liabilities	
Cash	3137.00	Dixon Company	25000
Supplies	8500	Topp Supply Company	20000
Prepaid Insurance	59000	Total Liabilities	45000
		Capital	
		Harry Walters, Capital	412700
Total Assets	457700	Total Liab. and Capital	457700

- Post-Closing Trial Balance
 - A final balance sheet that ensures all the temporary accounts have been closed and that the remaining accounts (assets, liabilities and capital) maintain the equity of the accounting equation.

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Post-Closing Trial Balance
July 31, 19--

ACCOUNT TITLE	DEBIT	CREDIT
Cash	3137.00	
Supplies	8500	
Prepaid Insurance	59000	
Dixon Company		25000
Topp Supply Company		20000
Harry Walters, Capital		412700
	457700	457700

Processes:

- Posting
 - Recording transactions (taken from the general or combination journal) in the individual accounts within the general ledger
- Recording adjusting entries
 - Permanent record of adjustments analyzed on the worksheet
 - Done in one of the journals then posted to the individual accounts
- Closing entries
 - Temporary capital accounts are closed in preparation for the next fiscal period
 - Done in one of the journals then posted to the individual accounts
 - Temporary capital accounts:
 - Owner's drawing account
 - Income summary
 - Revenue
 - Cost of merchandise
 - Expenses

GENERAL JOURNAL PAGE 2

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
19--	Adjusting Entries				
July 31	Supplies Expense			98500	
	Supplies				98500
31	Insurance Expense			11000	
	Prepaid Insurance				11000

GENERAL JOURNAL PAGE 2

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
31	Closing Entries				
31	Sales			319900	
	Income Summary				319900
31	Income Summary			172200	
	Advertising Expense				2500
	Equipment Repair Expense				4000
	Insurance Expense				11000
	Miscellaneous Expense				7200
	Rent Expense				40000
	Supplies Expense				98500
	Utilities Expense				9000
31	Income Summary			147700	
	Harry Walters, Capital				147700
31	Harry Walters, Capital			100000	
	Harry Walters, Drawing				100000